

Exhibit A
to
Commissioner's Order No. G 03-92

MARKET CONDUCT EXAMINATION

**PEMCO MUTUAL INSURANCE COMPANY
PEMCO INSURANCE COMPANY
325 EASTLAKE AVENUE EAST
SEATTLE, WASHINGTON 98109**

JANUARY 1, 2002 – DECEMBER 31, 2002



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

October 6, 2003

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

PEMCO Insurance Company, NAIC #18805
PEMCO Mutual Insurance Company NAIC # 24341

In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the PEMCO companies during the course of this market conduct examination and particularly acknowledge the efforts of those people who provided daily support to the examiners.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Prior Examination Summary

The prior full examination of the companies was in 1987, and a claims target examination was conducted in 1995. The Companies subject to those exams were PEMCO Insurance Company and PEMCO Mutual Insurance Company. Because the prior full scope examination occurred so far in the past, prior findings will not be included as part of this report.

SCOPE

Time Frame

The examination covered operations from January 1, 2002 through December 31, 2002. The examination was performed in the companies' home office in Seattle, Washington.

Matters Examined

The examination included the following areas:

Advertising
Agent Licensing
Complaints
Underwriting and Rating
Rate & Form Filings
Cancellations and Non-Renewals
Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'passed'. Standards in the areas of Agent Activity and Rates and Forms have a zero tolerance for errors. If any violations are found, the standard will fail. This also applies when all records are examined in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will pass or fail based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed without Comment, Passed with Comment or Failed. The definition of each category follows.

Passed without Comment	There were no adverse findings for the standard.
Passed with Comment	The records reviewed fell within the tolerance level for the standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
PEMCO Mutual Insurance Company	WA	10-05-1948	02-08-1949
PEMCO Insurance Company	WA	05-04-1972	08-22-1972

The Companies wrote the following personal lines of business during the exam period:

Home Owners	Boat Owners
Dwelling Fire	Personal Inland Marine
Private Passenger Auto	Personal Excess

Underwriting, Marketing and Claims functions are combined for both companies. The companies write only personal lines. Business for both companies is obtained through direct writing and telemarketing by PEMCO Insurance Agency (a subsidiary of PEMCO Mutual), or through independent agents. Stan W. McNaughton is the Chairman of the Board, President, and CEO of both companies that operate solely in Washington

PEMCO Mutual Insurance Company and PEMCO Insurance Company operate under combined management. All outstanding stock in PEMCO Insurance Company is owned by PEMCO Mutual Insurance Company.

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	A company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)
2	A company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding company.	RCW 48.07.070

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The company maintains full and accurate records and accounts.	RCW 48.05.280
4	The company filed an antifraud plan and files annual anti-fraud reports with the Office of Insurance Commissioner.	RCW 48.30A.045 RCW 48.30A.060

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06

Specific details are provided in the Underwriting and Claims sections of the examination. See pages 11 and 16, and Appendix 4 for details.

ADVERTISING

The Companies' advertising file consisted of 107 brochures, mailings, television, or radio advertisements and the website www.pemco.com.

Most of the advertising was considered name recognition, without specific reference to products that were company specific.

The examiners reviewed all documents that were used by the Companies during the exam period to determine compliance with the laws governing advertising.

Findings

The following Advertising Standards Passed without Comment:

#	ADVERTISING STANDARD	REFERENCE
1	A company's advertising material does not contain any false, deceptive or misleading representations.	RCW 48.30.040
2	A company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public.	WAC 284-30-660
4	A company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively.	RCW 48.30.070
5	The company does not advertise the existence of the Washington Insurance Guaranty Association.	RCW 48.30.075
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers.	RCW 48.30.080

#	ADVERTISING STANDARD	REFERENCE
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products.	RCW 48.30.090
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured, any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted by statute.	RCW 48.30.140, RCW 48.30.150

The following Advertising Standard Failed:

#	ADVERTISING STANDARD	REFERENCE
3	A company must use its full name and include the location of its home office or principle office in all advertisements.	RCW 48.30.050, Bulletin 78-7, Bulletin T 2000-06

Eight (7%) of the advertisements did not contain the full name of the company or its home office location or both. See Appendix 1 for details.

Subsequent Event: The eight advertisements found to be in violation were withdrawn from use by April 23, 2002.

AGENT ACTIVITIES

The examiners selected 32 agents for review from the 210 new and renewed policies reviewed in the underwriting sample and from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies' agent licensing records with the Office of the Insurance Commissioner's (OIC) records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standard Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	A company must ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way.	RCW 48.17.060(1) and (2)
2	A company must require that agents are appointed to represent the Company prior to allowing agents to solicit business on behalf of the company.	RCW 48.17.160

COMPLAINTS

The examiners selected 25 complaint files for review from a population of 205 complaints received by the companies between January 1, 2000 and January 3, 2003. The complaint files were either filed with the OIC or received directly from the customer. The complaints consisted of claims issues, underwriting and marketing issues.

Files were reviewed to determine if the Companies responded to complaints filed with the OIC within time frames stated in their procedures and those required by Washington law. Files were also reviewed for adverse trends.

The examiners reviewed the Companies' complaint handling procedures. The complaints are logged when initially received, and then routed to the appropriate department manager for response. The responses are also logged.

Findings

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	Responses to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4

UNDERWRITING AND RATING

The examiners selected 210 personal lines policies from a population of 38,487 policies which were either newly issued or renewed during the exam period.

Files were reviewed to determine if the companies:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws.

The examiners manually rated policies to determine if there were any programmed errors in the Companies' computer system and if the Companies were using their filed and approved rates.

The following errors were returned to the underwriting manager for review:

- One homeowner's policy was rated with the wrong protection class. The error did not affect the premium.

- One auto policy was issued in the wrong company. The company identified the error and re-issued the policy in the correct company.

Findings

NOTE: RCW 46.52.130 referenced in Underwriting Standard # 3 applies to commercial underwriting. Underwriting Standards # 4 and # 5 apply to commercial underwriting only. Since the companies do not write commercial lines, these standards do not apply to this examination.

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560
2	A company must require an insured to reject, in writing, Underinsured Motorist (UIM) coverage or Personal Injury Protection (PIP) coverage.	RCW 48.22.030(4), RCW 48.22.085(2)
3	During underwriting, a company must obtain and use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130 RCW 48.30.310, Bulletin 79-3
6	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
7	Binders must identify the insurer which is bound by the form.	WAC 284-30-560(2)(a)

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	A company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06

- Twenty-two (22) files (10% of the sample) contained correspondence that did not identify the insuring company. See Appendix 4 for details.

RATE AND FORM FILINGS

The examiners selected 97 forms from those that were attached to the 210 new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose of

the sample was to determine if the Companies were complying with the laws regarding the filing and use of rates and forms.

Findings

Note: Policy Provision Standard #5 applies only to commercial lines and is not applicable to this examination.

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100, RCW 48.18.103
3	The declarations page of a policy must identify all forms that make up the policy. The policy will identify all coverage limits.	RCW 48.18.140(2)(f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095, RCW 48.22.005

The following Rate and Form Filing Standards Passed With Comment:

#	POLICY PROVISION STANDARD	REFERENCE
2	Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing then in effect.	RCW 48.19.040(6)

- One (1) Mariner (boat) policy was rated with a 15% credit. The correct credit was 10%. The policy will be corrected at renewal.
- One (1) Mariner (boat) policy received a claims free discount in error. The policy will be corrected at renewal.

See Appendix 2 for details.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Companies were in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 155 policies from a population of 23,438 policies that were either cancelled or non-renewed during the exam period.

The following error was returned to the underwriting manager for correction:

- One policy was cancelled on the wrong effective date. \$137.76 was refunded to the policyholder.

Findings

The following Cancellation and Non-renewal Standards Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company.	RCW 48.17.591
2	The company either sends offers to renew, or sends cancellation or non-renewal notices, according to the requirements in effect prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570

CLAIM SETTLEMENT PRACTICES

The examiners selected 205 claim files for review from a population of 49,469 personal lines claims closed during the examination period. The companies were unable to provide a separate list of files that contained first party total losses. The total loss files that were reviewed were taken from the general population of 205 claim files.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

The claims are handled in the regional claims office in Seattle, Washington, or by field staff in satellite locations in Washington. The following errors were returned to claims management for review:

- One (1) subrogation claim had not been actively pursued, even though the at fault party had agreed to reimburse the company. \$200 was returned to the insured.

- Two (2) claims involved homeowners and auto policies for the same loss. The companies' policy is to take only the higher deductible. In both claims, two deductibles were applied. \$300 was returned to policyholders.
- One (1) total loss claim settlement was based on the base value, rather than the value following adjustments for low mileage and condition. \$587.52 additional payment was sent to the insured.
- One (1) total loss settlement contained an error in the calculation of the license tab fees. \$32.08 was returned to the policyholder.

Findings

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
4	The company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed.	WAC 284-30-360(1) and (3)
6	The company must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed With Comment:

#	CLAIM STANDARD	REFERENCE
2	Claim files contain detailed log notes and work papers so as to allow the examiners to reconstruct the claim file.	WAC 284-30-340
5	The company complies with requirements for prompt investigation of claims.	WAC 284-30-370

Claim Standard #2:

- Eight files (4% of the sample) did not contain sufficient documentation to reconstruct pertinent events and the dates of those events from the log-notes.

Claim Standard # 5

- Two claim files or less than 1% of the sample, had unsupported delays in the liability or coverage investigation.

The following Claims Standards Failed:

#	CLAIM STANDARD	REFERENCE
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330(1) through (19)
3	The company provides an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390

Claim Standard # 1

WAC 284-30-330(1) states that misrepresentation of policy provisions is considered an unfair trade practice.

- The examiners found that homeowner's contents claims with values of \$500 or less were not being settled according to the provisions in the policy and required the companies to identify all claims which had been handled incorrectly since the introduction of the endorsement in question. Seventy-seven (77) homeowner's contents claims settled between May 2001 and March 2003 were paid based on the Actual Cash Value of the claim. The policyholders had purchased Replacement Cost coverage which contained a settlement clause stating that Replacement Cost (no deduction for depreciation) would be paid on claims of \$500 or less. The companies had incorporated the Replacement Cost form with this settlement clause in May 2001. They failed to include it in their claims training, and supervisors reviewing the claims since that time had failed to identify the problem.

WAC 284-30-330(9) requires checks to be accompanied by a statement indicating which coverages apply to the payment.

- Eleven claim files (5% of the sample) contained checks that did not identify the applicable coverage.

Subsequent Event: The company states that a training program addresses both of the above issues. Claims personnel have been training on the requirements for replacement cost coverage for claims of \$500 or less. In addition, the company issued a training memo regarding proper completion of field drafts and has modified the field draft form to address this concern.

Claim Standard #3

- The examiners found homeowners' claims in the sample that were not settled according to the terms of the replacement clause in the policy. The examiners met with claims supervisors and found that none of these claims had been handled appropriately since the incorporation of the replacement cost form in May 2001. The

examiners expanded the sample by requiring the companies to identify all claims affected. For the period of May 2001 through March 2003, there were 374 claims that were affected. Of those, 77 homeowner's contents claims (20%) were paid based on the Actual Cash Value of the claim instead of the replacement value. The companies had failed to disclose to the insureds that they had this coverage. (See Claim Standard #1)

Subsequent event: The companies issued a training memo to all claims personnel clarifying the claims settlement requirements under the Replacement Cost coverage.

Claim Standard #7

The auto claim sample of 100 files contained 8 records of claims for first party total loss of a vehicle. All 8 were processed incorrectly. The companies procedure directed settlement amounts to be based on values of vehicles that could not be verified as comparable to the total loss vehicle. The companies use a vendor to provide comparable values and the worksheets provided by the vendor did not specifically identify which vehicles were used in the evaluation. The examiners asked the companies to provide a list of all first party total loss vehicle claims settled during the exam period. The companies were not able to isolate only those claims that contained total loss records. As a result, the examiners failed the companies on this standard based on 100% failed claim files reviewed in the sample.

See Appendix 3 for detail.

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06

- Twenty-seven (27) claim files (14% of the sample) contained correspondence or checks that did not identify the insuring company.

See Appendix 4 for detail.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	A company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	A company is required to file with the OIC any amendments to the Articles of Incorporation for a domestic insurer or an insurance holding company. (RCW 48.07.070)	7	X	

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06)	8, 11,16		X
3	The company maintains full and accurate records and accounts. (RCW 48.05.280)	7	X	
4	The company filed an antifraud plan and files annual anti-fraud reports with the Office of Insurance Commissioner. (RCW 48.30A.045 and RCW 48.30A.060).	7	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	A company's advertising material does not contain any false, deceptive or misleading representations. (RCW 48.30.040)	8	X	
2	A company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)	8	X	
3	A company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Bulletin T 2000-06)	9		X
4	A company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively.	8	X	

#	STANDARD	PAGE	PASS	FAIL
	(RCW 48.30.070)			
5	The company does not advertise the existence of the Washington Insurance Guaranty Association. (RCW 48.30.075)	8	X	
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)	8	X	
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)	9	X	
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted by statute. (RCW 48.30.140, RCW 48.30.150)	9	X	

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	A company must ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way. (RCW 48.17.060(1) and (2))	9	X	
2	A company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company. (RCW 48.17.160)	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Responses to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	10	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	11	X	

#	STANDARD	PAGE	PASS	FAIL
2	A company must require an insured to reject, in writing, Underinsured Motorist coverage or Personal Injury Protection Coverage. (RCW 48.22.030(4), RCW 48.22.085(2))	11	X	
3	During underwriting, a company must obtain and use only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 48.30.310, RCW 46.52.130, Bulletin 79-3) *	11	X	
4	A company must apply schedule rating plans to all policies as applicable in its filing. (WAC 284-24-100)	N/A	N/A	
5	A company must retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	N/A	N/A	
6	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	11	X	
7	Binders must identify the insurer which is bound by the form. (WAC 284-30-560(2)(a))	11	X	

* RCW 48.30.310 does not apply to this examination as the company does not write commercial lines of business.

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100, RCW 48.18.103)	12	X	
2	Where required, the company has filed with the OIC, classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040)	12	X	
3	The declarations page of a policy must identify all forms that make up the policy. The policy identifies all coverage limits. (RCW 48.18.140(2)(f))	12	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	12	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	12	N/A	
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	12	X	

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	13	X	
2	The company either sends offers to renew or sends cancellation or non-renewal notices according to the requirements in effect prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	13	X	
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	13	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	15		X
2	Claim files contain detailed log notes and work papers so as to allow the examiners to reconstruct the claim file. (WAC 284-30-340)	14	X	
3	The company provides an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	15		X
4	The company acknowledges receipt of a claim within 10 days, and responds to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1) and (3))	14	X	
5	The company complies with requirements for prompt investigation of claims. (WAC 284-30-370)	14	X	
6	The company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	14	X	
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390)	15		X
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)	14	X	
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	14	X	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

1. The companies are instructed to comply with RCW 48.05.190(1) to ensure all correspondence and claim settlement checks correctly identify the insuring company. (Pages 8, 11 and 16)
2. The companies are instructed to comply with RCW 48.30.050 to ensure that all advertisements contain the full name of the company and home office location. (Page 9)
3. The companies are instructed to comply with WAC 284-30-330(1) to ensure accurate representation of policy provisions in the claims handling process. (Page 15)
4. The companies are instructed to comply with WAC 284-30-330(9) to ensure checks are accompanied by a statement that indicates under which coverage a payment to an insured or beneficiary is made. (Page 15)
5. The companies are instructed to comply with WAC 284-30-350(1) and fully disclose all coverage or benefits applicable to a claim that is presented by the insured. (Page 15)
6. The companies are instructed to comply with WAC 284-30-390(1)(a-c) to establish and explain the market value of first party total loss vehicles. (Page 15)

RECOMMENDATIONS

1. It is recommended that the specific insuring company name be added to the Restrictive Vehicle Agreement Form as it is policy specific in nature.

APPENDIX 1

RCW 48.30.050 Advertising Standard # 3	Company advertising must identify the true legal name of the insurer and the principal or home office location.
Form number or identifier	Direct mailings to insureds or prospective insureds
10015.002 Rev. 12/1999	The "home office or principle office" location was not identified.
10027.002 Rev. 02/1999	The "home office or principle office" location was not identified. The true legal name of the insurer was not used.
10063.001 12/1997	The true legal name of the insurer was not used.
10050.002 Rev. 06/2001	The home office or principle location was not identified.
10082.001 Rev. 05/2000	The true legal name of the insurer was not used.
10097.001 Rev. 06/2001	The "home office or principle office" was not identified. The true legal name of the insurer was not used.
10012.001 Rev. 05/2000	The true legal name of the insurer was not used.
10022.001 Rev. 03/1999	The true legal name of the insurer was not used.
	Other mailings, i.e. agents, specific groups
20054846-0726.78x 58348 06/2000	Ad says PEMCO Insurance, directed at school employees; PEMCO Insurance Company is the only one that writes school employees.

APPENDIX 2

RCW 48.19.040(6) Rating and Forms Standard # 2	Policies must be rated according to the approved filing.
MA 0051566	Policy eligible for 10% mariner plus credit. The policy was given a 15% credit. The company will correct this at renewal.
MA 0050874	Policy was not eligible for the claims free discount it received. The company will correct this at renewal.

APPENDIX 3

WAC 284-30-330(1) Claims Standard # 1	Misrepresenting facts or insurance policy provisions is considered an unfair trade practice.
77 claims	Homeowner's contents claims with a value of \$500 or less were paid based on Actual Cash Value instead of Replacement Cost as required by the policy language. \$5520.43 in additional payments were made to policyholders.
WAC 284-30-330(9) Claims Standard # 1	Requires payments issued to insureds or beneficiaries to identify under what coverage the payment is made.
HO0222673	Checks did not identify the coverage under which the payment was made.
FI0056557	Checks did not identify the coverage under which the payment was made.
HO0243230	Checks did not identify the coverage under which the payment was made.
HO0195942	Checks did not identify the coverage under which the payment was made.
CA0755901	Checks did not identify the coverage under which the payment was made.
HO0261264	Checks did not identify the coverage under which the payment was made.
HO0378298	Checks did not identify the coverage under which the payment was made.
HO0349357	Checks did not identify the coverage under which the payment was made.
HO0342965	Checks did not identify the coverage under which the payment was made.
HO0342081	Checks did not identify the coverage under which the payment was made.
HO0368544	Checks did not identify the coverage under which the payment was made.
WAC 284-30-340 Claims Standard #2	Claim file documentation must contain log notes and work-papers in such detail that events can be reconstructed.
HO39676792	File documentation was incomplete.
FI0056939	File documentation was incomplete.
HO0042470	File documentation was incomplete.
HO0367704	File documentation was incomplete.

Claims Standard #2 (continued)	Claim file documentation must contain log notes and work-papers in such detail that events can be reconstructed.
HO0137934	File documentation was incomplete.
CA01311022	File documentation was incomplete.
HO0077936	File documentation was incomplete.
HO0069980	File documentation was incomplete.
WAC 284-30-350(1) Claims Standard #3	No insurer shall fail to disclose to first party claimants pertinent benefits, or coverage under which a claim is presented.
77 claims	Insureds were not advised that their homeowner's contents coverage contained a clause indicting that claims of \$500 or less would be settled based on Replacement Cost instead of Actual Cash Value. (see WAC 284-30-330(1))
HO0399347	Letter regarding replacement cost to insured did not indicate that the time frame for replacement was 180 days as stated in the contract.
WAC 284-30-370 Claims Standard # 5	Insureds shall complete their investigation within 30 days in most cases.
MA0012124	Liability investigation was not completed timely.
CA0296044	Coverage investigation was not completed timely.
WAC 284-30-390 Claims Standard #7	Market value of total loss vehicles must be evaluated based on the requirements and options in the code. (390)(1) The basis for the settlement shall be fully explained to the first party claimant.
CA0006669	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0756300	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0748345	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0113326	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0748345	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0784085	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
WAC 284-30-390 Claims Standard #7 (continued)	Market value of total loss vehicles must be evaluated based on the requirements and options in the code. (390)(1) The basis for the settlement shall be fully explained to the first party claimant.
CA0753818	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.
CA0731759	The company could not identify which vehicles in the vendor's total loss evaluation were actually used as comparables to the insured's vehicles.

APPENDIX 4

RCW 48.05.190(1) General Exam Standard # 2	Requires insurers to conduct business in their own legal name.
Policy or Claim Number	Comments
CA 0416966	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
MA 0044511	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
HO 0284449	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0778442	Letters did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0780423	Letter did not show the actual legal name of the insuring company.
CA 0776302	Letter did not show the actual legal name of the insuring company.
EL 0004068	Letter did not show the actual legal name of the insuring company.
CA 0103127	Letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
EL 0009043	Letter did not show the actual legal name of the insuring company.
HO 0256238	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
HO 0382581	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0462026	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown. Another letter showed an incorrect insuring company name.
EL 0003334	Letter did not show the actual legal name of the insuring company.
CA 0577970	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0761843	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0709281	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0730297	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0541412	Letter did not show the actual legal name of the insuring

RCW 48.05.190(1) General Exam Standard # 2	Requires insurers to conduct business in their own legal name.
Policy or Claim Number	Comments
	company, instead 2 insurance companies were shown.
MA 0043011	Letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0139383	Letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0746558	Letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0419737	2 Letters and an e-mail did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0137934	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0131022	Letter did not show the actual legal name of the insuring company, instead 2 insurance companies were shown.
CA 0731759	1 letter, a fax and settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0261264	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0378298	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0349357	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0342965	2 settlement checks did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0724865	Subrogation letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0784085	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 00753818	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.

RCW 48.05.190(1) General Exam Standard # 2	Requires insurers to conduct business in their own legal name.
Policy or Claim Number	Comments
HO 0342081	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0118986	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0253873	1 settlement check and 1 letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0377049	2 faxes did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0574671	2 letters did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0773685	1 settlement check and 4 letters did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 1285610	1 settlement check and 1 letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0783275	1 letter, an e-mail and settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
MH 0331164	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0264042	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0300702	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0690721	1 settlement check and 1 letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0736396	1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used.
CA 0016159	3 letters and 1 settlement check did not show the actual legal

RCW 48.05.190(1) General Exam Standard # 2	Requires insurers to conduct business in their own legal name.
Policy or Claim Number	Comments
	name of the insuring company. A generic group of companies name was used.
CA 0032109	2 letters did not show the actual legal name of the insuring company.
CA 0777971	3 letters and 1 settlement check did not show the actual legal name of the insuring company. A generic group of companies name was used on the settlement check and an incorrect company was used on the letters.
HO 0230330	1 letter did not show the actual legal name of the insuring company. A generic group of companies name was used.
HO 0144443	2 letters did not show the actual legal name of the insuring company.



PEMCO
Insurance

SCANNED

PEMCO Mutual Insurance Company, 325 Eastlake Avenue East, Seattle, WA 98109-5466

September 10, 2003

RECEIVED
SEP 12 2003

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Report of Market Conduct Examination (January 1 – December 31, 2002)
PEMCO Mutual Insurance Company
PEMCO Insurance Company

Dear Deputy Commissioner Odiorne:

We have received the draft of the referenced report of examination of PEMCO Mutual Insurance Company (PMIC) and PEMCO Insurance Company (PIC)(collectively, the "companies") and have completed our review of the material presented. We are pleased with the report overall, and we look forward to its formal adoption.

At your request, we offer the following comments and ask that they be included with the final examination report.

Regarding the section entitled "INSTRUCTIONS" found at page 21 of the report:

1. The companies are instructed to comply with RCW 48.05.190(1) to ensure all correspondence and claim settlement checks correctly identify the insuring company. (Pages 8, 11 and 16)

RESPONSE:

We issued a training memo to all insurance company employees reiterating the requirements of RCW 48.05.190. The memo was provided to the examiners for review, and it was circulated before they held their exit interview with company personnel on March 28, 2003.

2. The companies are instructed to comply with RCW 48.30.050 to ensure that all advertisements contain the full name of the company and home office location. (Page 9)

RESPONSE:

The report comments on 9 out of 107 items in the companies' advertising file. We respectfully disagree with two of the nine comments: (1) Form 20054846-0726.78x58348 (06/2000) was an advertisement directed to school employees, and

PEMCO Mutual Insurance Company • PEMCO Insurance Company
Home Office: 325 Eastlake Avenue E. • PO Box 778 • Seattle, WA 98111-0778 • (206) 628-4204 • 1-800-552-7430 toll free
Lynnwood Office: 2502 196th Street S.W. • PO Box 97009 • Lynnwood, WA 98046-9709 • (425) 771-2609 • 1-800-552-7430 toll free
Spokane Office: 2002 N. Atlantic Street • Spokane, WA 99205-4805 • (509) 328-8900 • 1-800-422-5768 toll free
Claims: (206) 628-7928 in Seattle area • 1-800-552-7440 toll free
1-800-628-6066 TTY • www.pemco.com



contrary to the report's comment, *both* PMIC and PIC write policies for school employees, though only PIC does so exclusively; (2) Form 10063.001 (12/1997) had not been ordered for use since October 5, 2001 (before the period under examination), and the form was recorded as deleted (no longer available for use) as of April 23, 2002.

We would also note that, regarding the other seven forms receiving comment, three were deleted in 2002; the remaining 4 were deleted before the examiners' exit interview was held on March 28, 2003.

3. The companies are instructed to comply with WAC 284-30-330(1) to ensure accurate representation of policy provisions in the claims handling process. (Page 15)

RESPONSE:

The report correctly states under "*Subsequent event*" (page 15) that the companies have trained claims personnel on the requirements under the replacement cost coverage for claims of \$500 or less. In addition, the seventy-seven (77) homeowner's contents claims referred to at page 15 of the report were reviewed before the on-site examination concluded. Supplemental payments were issued totaling \$5,520.43.

4. The companies are instructed to comply with WAC 284-30-330(9) to ensure checks are accompanied by a statement that indicates under which coverage a payment to an insured or beneficiary is made. (Page 15)

RESPONSE:

This finding applied only to field drafts. The companies' automated drafts automatically note appropriate coverages. A training memo regarding proper completion of field drafts was issued to claims personnel before the on-site examination was concluded. In addition, new, modified field drafts have been issued to address this issue.

5. The companies are instructed to comply with WAC 284-30-350(1) and fully disclose all coverage or benefits applicable to a claim that is presented by the insured. (Page 15)

RESPONSE:

This instruction is related to the third instruction above. Claims personnel have been trained to advise insureds that their homeowner's contents coverage provides that claims of \$500 or less will be settled based on replacement cost.

6. The companies are instructed to comply with WAC 284-30-390(1)(a-c) to establish and explain the market value of first party total loss vehicles. (Page 15)

RESPONSE:

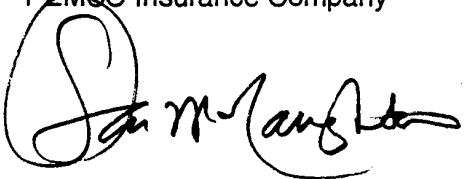
Following, and unrelated to, this examination, the OIC issued a rule-making order amending WAC 284-30-390(1)(a-c) and other provisions regulating settlement of vehicle insurance claims. The companies are aware of these amendatory provisions, effective October 1, 2003, and the OIC's intention that they clarify and simplify regulations regarding total loss claims.

The vendor that provides a total loss evaluation tool for the companies advises it will identify comparable vehicles to allow compliance with this requirement. We will also provide training associated with these regulatory changes.

If you have any questions regarding these or other matters addressed in the report of examination, please do not hesitate to contact me.

Sincerely,

PEMCO Mutual Insurance Company
PEMCO Insurance Company

A handwritten signature in black ink, appearing to read "Stan W. McNaughton", written over a large, stylized circular flourish.

Stan W. McNaughton
President & Chief Executive Officer